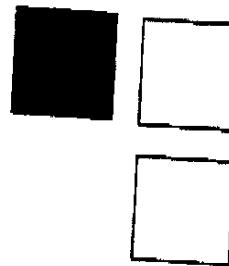


# **EXHIBIT 7**

AWWA MANUAL

*Chapter 1*

# Dedicated-Capacity Charges

For some water utilities, it may be appropriate to include some form of dedicated-capacity charge as part of their total rates and charges program. This type of charge is instituted to ensure that the utility will recover, from those for whom a significant portion of the total utility-plant facilities capacity has been dedicated, the ongoing costs associated with this capacity. Two types of dedicated-capacity charges are the availability charge and the demand contract charge.

## AVAILABILITY CHARGE

In this manual, the term *availability charge* describes a charge made to recover capital-related costs and other ongoing costs incurred by a utility when it is constructing facilities for the benefit of potential future customers. When used, the charge is normally part of the utility's general water-rate structure. It is made only between the time service is first made available to a potential customer and the time service actually goes into effect. Thereafter, the normal water-rate structure takes over and the availability charge is terminated.

The justification for an availability charge is that the utility incurs a number of costs regardless of whether or not direct service is being rendered. Under certain circumstances, it may be reasonable to charge for simply having service available to a potential customer's property although, for some reason, the service is not being used.

The major need for an availability charge is in new water systems in which the immediate connected-customer base is small but where a certain minimum level of revenue is necessary to make the installation of a water system financially feasible. There may be other situations where use of an availability charge is appropriate. However, in each case, the principal need and basis for the charges would be because a utility has made a substantial investment in plant facilities and incurred costs to make water service available. Under these conditions, it is appropriate for such costs to be shared by both connected users and potential future users of the water facilities.

## 2 WATER RATES

Even in those situations where the utility has an effective program for customer contribution of capital covering mains and other local facilities, the utility can incur fixed costs and other costs for backup facilities. These costs should be shared between existing customers and those noncustomer property owners who may derive benefits from the facilities. An example would be an investment in water utility facilities that are built to meet the demand of a large, new land development. Often a developer will lay out all of the lots, and the utility will build facilities to meet the water-supply needs for the total area to be developed. Thus, the plant has been designed and built with the capacity to meet the needs of all potential customers. Costs initially incurred will be substantially higher than would be required for the initial connected-customer base. This happens even when all of the mains or other local facilities have been paid for by the developer. The ongoing costs of the reserve capacity can be recovered through an availability charge. In this way, all property owners who benefit continuously pay their share of the costs. Although an availability charge has had only limited use in the industry, it can be an effective element in a rate schedule.

Another application of the availability charge would be in a situation where a utility folds most of the cost of public fire service into its general water-service rates. Property owners near to, but not connected to, the mains may also benefit from the availability of public fire service; however, these property owners technically are not customers. An availability charge could be used so that they pay their share of the benefit received from public fire-protection service.

There are statutes in some states concerning the use of availability charges, and it is advisable to become familiar with these statutes as well as any legal precedents or laws that could affect the use of these charges. Regulated utilities should also research the policies and requirements of their regulatory agency in the use of availability charges.

In establishing the form of and amount of an availability charge, the first step is to determine what costs should be included in the charge. Costs should

The first step in the development of an availability charge is to determine the equivalent-customer basis. Bases other than the equivalent-customer basis could be used for establishing unit charges.

The actual annual cost for a particular utility would be used in developing its cost data and resulting charge. For investor-owned utilities, depreciation expense, return on rate base, and all applicable taxes would be part of the cost to be recovered.

## DEMAND CONTRACT CHARGE

The fixed costs for the base- and the extra-capacity requirements of a water system are allocated to the various cost components, and general water-use rates are designed to recover these costs. This concept is described in AWWA Manual M1, under the section "Distribution of Costs to Customer Classes: Base—Extra Capacity Method." As a general

Table 1-1 Example Calculation of Availability Charge

Total investment by the utility in plant facilities to be included in availability charge	\$450 000
Annual costs	
Debt service	45 000
Payment in Lieu of taxes	30 000
Projected annual cost for inspection, billing, and certain operation and maintenance expenses	45 000
	\$120 000
Monthly charge based on 2000 equivalent potential customers	\$5.00

\*Based on government-owned utility.

**APPLICANT'S  
EXHIBIT 8**

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GUASTELLA ASSOCIATES

**HANG POINT UTILITY, INC. - WATER OPERATION**  
 Calculation of Annual Income

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Residential	67,264	72,198	77,132	82,888	97,031	104,761	112,984	122,029	131,887	131,887
Commercial	15,402	15,402	15,402	15,402	15,402	15,402	15,402	15,402	15,402	15,402
Irrigation	73,391	77,175	80,569	83,701	87,677	93,229	104,583	111,370	118,940	118,940
Availability Billing	90,00	43,110	41,670	40,320	38,540	34,850	30,670	29,440	26,010	26,010
Total Revenues	199,186	208,445	213,422	220,511	229,614	240,492	253,839	252,248	252,248	252,248
Operating Expenses:										
Wages & Benefits	3.5%	20,757	21,463	22,235	23,014	23,819	24,653	25,618	26,409	27,333
Repair & Maint.	2.5%	49,190	50,419	51,680	52,972	54,296	55,654	57,045	58,471	61,431
Supplies	2.5%	101	104	107	108	112	115	118	121	124
Outside Services		22,898	22,998	22,998	22,998	22,998	22,998	22,998	22,998	22,998
Telephone		2,259	2,259	2,259	2,259	2,259	2,259	2,259	2,259	2,259
Office Equip. Rental		490	490	490	490	490	490	490	490	490
Bad Debt		3,121	3,296	3,462	3,840	3,861	4,113	4,390	4,659	5,325
Power		17,184	18,128	19,009	18,814	21,063	22,414	23,842	25,327	26,916
Other Operating Exp.	2.5%	9,439	9,675	9,917	10,165	10,419	10,880	10,947	11,220	11,788
Total O&M Expense	125,540	126,851	132,157	135,561	139,310	143,375	147,554	151,854	156,845	161,853
Depreciation		18,747	24,515	25,643	27,084	28,655	30,034	31,606	33,172	35,052
Amortization		10,000	10,000	10,000	10,000	0	0	0	0	0
Revenue Taxes		2,241	2,233	2,402	2,484	2,584	2,708	2,834	2,969	3,120
Property Taxes		28,479	28,479	28,479	28,479	28,479	28,479	28,479	28,479	28,479
Payroll Taxes		1,643	1,643	1,701	1,761	1,822	1,886	1,952	2,020	2,164
Income Taxes		2,420	2,420	2,510	2,916	5,536	5,647	7,582	9,950	12,180
Total Operating Exp.		189,015	197,688	202,892	208,281	206,394	213,028	220,048	227,304	235,368
Net Operating Income	10,152	8,587	10,530	12,230	23,220	27,484	31,806	36,535	41,872	47,576
Return Required		227,880	222,802	217,856	212,370	206,352	200,660	194,539	188,363	173,593
Operating Surplus (Deficiency)	(217,728)	(214,215)	(207,325)	(200,140)	(183,131)	(173,198)	(162,733)	(151,828)	(139,043)	(126,017)
Deficiency w/o Avail. Billing	(250,839)	(255,985)	(247,645)	(238,960)	(219,671)	(208,026)	(195,583)	(182,896)	(167,483)	(152,027)
<b>SUPPORTING CALCULATIONS</b>										
Avg # Res Customers	205	Rev	39,510	235	Rev	45,360	273	Rev	53,100	318
Res. Water Gallons (G)	152,277	30,454	163,444	32,888	17,481	34,922	37,528	40,655	43,931	47,431
Avg # Comm Customers	25	6,300	25	6,300	25	6,300	25	6,300	25	6,300
Comm. Water Gallons (B)	4550.8	9,102	4551	9,102	4551	9,102	4551	9,102	4551	9,102
Avg # Res IRR Customers	115	123	142	154	164	170	176	191	212	234
Res. # Comm Water Gallons (B)	1374.1	23,887	15,481	33,672	17,041	37,066	18,481	40,198	22,652	25,442
Avg # Comm IRR Customers	24	24	24	24	24	24	24	24	24	24
Comm. IRR Gallons (B)	18557	40,428	18587	40,428	18587	40,428	18587	40,428	18587	40,428
WTP	3,075	3,075	3,075	3,075	3,075	3,075	3,075	3,075	3,075	3,075
	158,056	164,775	173,102	181,981	193,074	205,682	219,033	232,958	248,801	266,238
Taxable SIT	12,572	10,834	13,041	15,145	20,756	24,011	39,398	45,244	51,854	58,756
SIT	629	532	652	757	1,436	1,701	1,966	2,262	2,593	2,985
Taxable FIT	11,943	10,102	12,389	14,386	27,318	32,310	37,418	42,982	48,282	56,768
first \$50,000	0.15	1.791	1.515	1.658	2.158	4,088	4,847	5,613	6,447	7,389
next \$25,000	0.25	0	0	0	0	0	0	0	0	0
FIT	1,515	1,791	1,858	2,158	4,088	4,847	5,613	6,447	7,389	9,192
Plant In Service	2,847,910	2,847,910	2,847,910	2,847,910	2,847,910	2,847,910	2,847,910	2,847,910	2,847,910	2,847,910
Accum Depreciation	-131,958	-186,472	-182,115	-209,199	-237,854	-267,898	-299,494	-322,667	-367,719	-404,656
CWPP	0	0	0	0	0	0	0	0	0	0
CIAC	-383,000	-412,000	-430,000	-471,000	-513,000	-568,000	-603,000	-650,000	-710,000	-768,000
Accum. Amort. of CIAC	-78,450	-70,510	-66,970	-98,070	-105,910	-115,600	-128,190	-140,720	-154,320	-169,100
Working Capital (15%)	25,108	23,357	23,357	23,357	23,357	23,357	23,357	23,357	23,357	23,357
Unamortized Balances	35,000	24,083	15,000	5,000	0	0	0	0	0	0
Paid-in Base	2,463,570	2,463,570	2,355,186	2,285,883	2,200,828	2,168,287	2,103,124	2,036,354	1,965,840	1,876,676
ROR	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%
Return Required	227,880	222,802	217,856	212,370	206,352	200,660	194,539	188,363	180,915	173,593

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Avg # Res IRR Customers	115	123	142	154	164	170	176	191	212	234
Res. # Comm Water Gallons (B)	1374.1	23,887	15,481	33,672	17,041	37,066	18,481	40,198	22,652	25,442
Avg # Comm IRR Customers	24	24	24	24	24	24	24	24	24	24
Comm. IRR Gallons (B)	18557	40,428	18587	40,428	18587	40,428	18587	40,428	18587	40,428
WTP	3,075									

